

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: Monroe County Road Commission	County Monroe
Audit Date December 31, 2005	Opinion Date March 24, 2006	Date Accountant Report Submitted To State: June 30, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48037
Accountant Signature <i>Plante & Moran, PLLC</i>			

Monroe County Road Commission
(a component unit of Monroe County)

Financial Report
with Supplemental Information
December 31, 2005

Monroe County Road Commission

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Independent Auditor's Report

To the Board of Road Commissioners
Monroe County Road Commission

We have audited the accompanying basic financial statements of the Monroe County Road Commission (a component unit of Monroe County) as of and for the year ended December 31, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Monroe County Road Commission at December 31, 2005 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplemental information are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplemental information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Monroe County Road Commission. This information has been subjected to the procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

March 24, 2006



A worldwide association of independent accounting firms

Monroe County Road Commission

Management's Discussion and Analysis

Our discussion and analysis of the financial performance of the Monroe County Road Commission (the "Road Commission") provide an overview of the Road Commission's financial activities for the fiscal year ended December 31, 2005. Please read this in conjunction with the financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The governmental fund balance sheet/statement of net assets presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based column presents a short-term view of the Road Commission; they tell us how much is available for future spending. The total full accrual column is intended to present a longer-term view, and tells us whether taxpayers have funded the full cost of providing services to date.

The statement of governmental fund revenue, expenditures, and changes in fund balance/statement of activities also presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis, and then in total on a full accrual basis. The modified accrual fund-based column tells us how the taxpayers' money was spent during the year, while the total full accrual column tells us the cost of providing services this year, as well as whether taxpayers paid the full cost of providing services this year.

Supplemental information is also provided for additional information purposes.

Financial Analysis

The net assets of the Road Commission are summarized for the purpose of determining the overall fiscal position. As shown on the net asset chart below, the Road Commission's assets exceeded liabilities by \$95,064,172 at the end of the fiscal year. When comparing this fiscal year to the previous year, net assets have increased by \$6,276,630 (see page 5). This is mostly attributed to the addition of infrastructure assets.

The Road Commission's revenue for the year ended December 31, 2005 decreased by approximately \$1,500,000 from the previous year. While local participation of road fund projects increased during the year ended December 31, 2005, decreased state aid funding and participation from federal and state sources caused the overall decrease in revenue.

The Road Commission's expenditures for the year ended December 31, 2005 decreased by approximately \$4,000,000 from the previous year. The reason for this decrease is less depreciation expense was recorded during the year ended December 31, 2005 as a result of several infrastructure assets becoming fully depreciated in the previous year.

Monroe County Road Commission

Management's Discussion and Analysis (Continued)

A comparative analysis of the Road Commission data is presented below:

Condensed Statement of Net Assets

	Governmental Activities	
	December 31	
	2005	2004
Assets		
Current and other assets	\$ 11,445,544	\$ 7,801,726
Capital assets	<u>95,239,729</u>	<u>89,689,236</u>
Total assets	106,685,273	97,490,962
Liabilities		
Long-term liabilities outstanding	6,990,851	5,483,015
Other liabilities	<u>4,630,250</u>	<u>3,220,405</u>
Total liabilities	<u>11,621,101</u>	<u>8,703,420</u>
Net Assets		
Invested in capital assets - Net of related debt	89,304,197	84,747,956
Unrestricted	<u>5,759,975</u>	<u>4,039,586</u>
Total net assets	<u>\$ 95,064,172</u>	<u>\$ 88,787,542</u>

Monroe County Road Commission

Management's Discussion and Analysis (Continued)

Condensed Statement of Activities

	Governmental Activities	
	Year Ended December 31	
	2005	2004
Revenue		
State aid	\$ 10,311,687	\$ 12,510,463
Federal and state sources	968,772	3,282,740
Local and other sources	14,482,603	11,420,977
Total revenue	25,763,062	27,214,180
Expenses		
Maintenance	9,202,065	9,070,769
Administrative	1,782,422	1,745,759
Depreciation	8,248,764	12,482,991
Interest and other	253,181	230,567
Total expenses	19,486,432	23,530,086
Change in Net Assets	\$ 6,276,630	\$ 3,684,094

Road Fund Budgetary Highlights

The Road Commission amended its 2005 budget during the year to reflect changes in the level of funding from Michigan Transportation Fund revenues and status changes in budgeted projects. The final budget for revenue was \$2.1 million higher than the original budget primarily due to an increase in township contributions and an in-kind contribution toward a project. The final budget for expenditures was \$6.3 million higher than the original budget primarily due to an increase in the number of local road and heavy maintenance projects. The actual 2005 revenues were approximately \$325,000 less than the amended budget due to less federal and state funding. The actual 2005 expenditures were approximately \$31,000 more than the amended budget due to higher than expected retainages on construction projects and an increase in self-help projects.

Capital Assets

The Road Commission had \$95,239,729 in capital assets at the end of the fiscal year. The reason for the \$5.6 million increase from the previous year is twofold: (1) purchases of new equipment, and (2) an increase in infrastructure costs. Infrastructure costs continue to be the largest asset class.

Monroe County Road Commission

Management's Discussion and Analysis (Continued)

Capital Assets at Year End (Net of Depreciation) - Governmental Activities

	Governmental Activities	
	December 31	
	2005	2004
Land and land improvements	\$ 837,328	\$ 825,464
Buildings	2,468,074	2,659,261
Equipment and storage	2,657,217	2,835,946
Infrastructure - Including land improvements	89,277,110	83,368,565
Totals	<u>\$ 95,239,729</u>	<u>\$ 89,689,236</u>

Economic Factors and Next Year's Budget

The general economic activity diminished during 2005, which resulted in Michigan Transportation Fund (MTF) revenues decreasing compared to 2004 receipts. The Road Commission has received contradictory reports regarding the MTF funding available in 2006 and has chosen to use a flat projection. The actual 2006 revenues and expenditures will be monitored on a quarterly basis in order to obtain a balanced budget.

Overall, the 2006 budget includes a flat projection of expenditures compared to 2005, primarily due to the Road Commission's inability to contribute toward various federal aid and miscellaneous projects.

Revenues are expected to be lower in 2006 primarily due to the reduction in MTF revenues, less federal aid projects, and a decrease in the number of township agreement projects.

Contacting the Road Commission Management

This financial report is designed to provide a general overview of the Road Commission's finances and to show accountability for the money it receives and expends. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Monroe County Road Commission, 840 S. Telegraph Road, Monroe, MI 48161.

Monroe County Road Commission

Governmental Fund Balance Sheet/Statement of Net Assets December 31, 2005

	Major Fund - Road	Adjustments (Note 2)	Statement of Net Assets
Assets			
Cash and investments (Note 3)	\$ 896,662	\$ -	\$ 896,662
Receivables:			
Accounts (Note 1)	8,157,370	-	8,157,370
Special assessments	100,664	-	100,664
Inventory	783,081	-	783,081
Restricted assets (Note 4)	1,504,226	-	1,504,226
Prepaid expenses and other	3,541	-	3,541
Capital assets - Net (Note 5):			
Assets being depreciated	-	82,176,383	82,176,383
Assets not being depreciated	-	13,063,346	13,063,346
Total assets	<u>\$ 11,445,544</u>	95,239,729	106,685,273
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 1,637,565	-	1,637,565
Retainage payable	170,905	-	170,905
Advances (Note 1)	1,542,174	-	1,542,174
Accrued liabilities	157,399	108,076	265,475
Deferred revenue (Note 1)	4,926,411	(4,926,411)	-
Bonds and contracts payable, due within one year (Note 7)	-	1,014,131	1,014,131
Bonds and contracts payable, due in more than one year (Note 7)	-	6,425,627	6,425,627
Other long-term liabilities (Note 6)	-	565,224	565,224
Total liabilities	8,434,454	3,186,647	11,621,101
Fund Balances			
Reserved:			
Inventory	783,081	(783,081)	-
Prepaid expenses	3,541	(3,541)	-
Unspent bond proceeds	1,504,226	(1,504,226)	-
Unreserved and undesignated	720,242	(720,242)	-
Total fund balances	3,011,090	(3,011,090)	-
Total liabilities and fund balances	<u>\$ 11,445,544</u>		
Net Assets			
Investments in capital assets - Net of related debt		89,304,197	89,304,197
Unrestricted		5,759,975	5,759,975
Total net assets		<u>\$ 95,064,172</u>	<u>\$ 95,064,172</u>

Monroe County Road Commission

Statement of Governmental Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended December 31, 2005

	Major Fund - Road	Adjustments (Note 2)	Statement of Activities
Revenue			
State aid - Michigan Transportation Fund	\$ 10,311,687	\$ -	\$ 10,311,687
State trunkline maintenance	2,757,076	-	2,757,076
Federal and state sources	968,772	-	968,772
Revenue from local governments	6,286,245	2,114,259	8,400,504
Gain on sale of asset	-	49,763	49,763
Interest, fees, and other revenue	3,300,428	(25,168)	3,275,260
Total revenue	23,624,208	2,138,854	25,763,062
Expenditures/Expenses			
Current:			
Primary construction/Heavy maintenance	4,807,477	(4,807,477)	-
Local construction/Heavy maintenance	8,361,680	(8,361,680)	-
Primary routine maintenance	3,291,709	-	3,291,709
Local routine maintenance	4,230,670	-	4,230,670
State maintenance	2,751,248	-	2,751,248
Equipment and capital outlay	580,337	(580,337)	-
Less equipment rental and other charged to other expenditures	(1,495,806)	-	(1,495,806)
Administrative	1,758,933	23,489	1,782,422
Other services	427,469	(3,225)	424,244
Depreciation expense	-	8,248,764	8,248,764
Debt service:			
Principal retirement	899,477	(899,477)	-
Interest and other charges	206,622	46,559	253,181
Total expenditures	25,819,816	(6,333,384)	19,486,432
Excess of Revenue Over (Under) Expenditures	(2,195,608)	8,472,238	6,276,630
Other Financing Sources - Proceeds from long-term debt	3,003,500	(3,003,500)	-
Excess of Revenue and Other Financing Sources Over Expenditures	807,892	5,468,738	6,276,630
Fund Balances/Net Assets - January 1, 2005	2,203,198	86,584,344	88,787,542
Fund Balances/Net Assets - December 31, 2005	<u>\$ 3,011,090</u>	<u>\$92,053,082</u>	<u>\$95,064,172</u>

Monroe County Road Commission

Notes to Financial Statements December 31, 2005

Note 1 - Significant Accounting Policies

The Road Commission of the County of Monroe, Michigan (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the road system in the County of Monroe, Michigan. The Road Commission's financial statements will be included in the basic financial statements of the County of Monroe, Michigan as a discretely presented component unit.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

Basic Financial Statements - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. The Road Commission consists solely of governmental-type activities; no business-type activities exist.

The fund financial statements are provided to report governmental funds, and have been separately stated in conjunction with the government-wide financial statements.

The major individual governmental fund has been reported as a separate column in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Monroe County Road Commission

Notes to Financial Statements December 31, 2005

Note 1 - Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

The Road Fund is the Road Commission's only major governmental fund. The Road Fund is used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions. In addition, this fund is used to account for the construction and financing of public improvements provided in benefiting districts that are to be paid, at least in part, from an assessment against the benefited property.

Cash and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices.

Accounts Receivable - Accounts receivable are amounts due primarily from other units of government. The Road Commission has not recorded a provision for doubtful accounts for accounts receivable since it is the opinion of management that those receivables are collectible in full.

Monroe County Road Commission

Notes to Financial Statements December 31, 2005

Note 1 - Significant Accounting Policies (Continued)

Advances and Deferred Revenue - Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of advances and deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Accounts receivable	\$ 4,825,747	\$ -
Special assessments receivable	100,664	-
Advances	<u>-</u>	<u>1,542,174</u>
Total	<u>\$ 4,926,411</u>	<u>\$ 1,542,174</u>

Inventory and Prepaid Items - Inventory consists principally of road material, salt, signs, and equipment maintenance materials and is valued at the lower of average cost or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 to 50 years
Equipment	5 to 10 years
Infrastructure	8 to 50 years

Monroe County Road Commission

Notes to Financial Statements December 31, 2005

Note 1 - Significant Accounting Policies (Continued)

Compensated Absences (Vacation and Sick Leave) - It is the Road Commission's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

Monroe County Road Commission

Notes to Financial Statements December 31, 2005

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statements are different from amounts reported in the governmental funds because of the following:

Governmental funds fund balance	\$ 3,011,090
Capital assets used in governmental activities are not financial resources and are not reported in the funds	95,239,729
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures	100,664
Local and other receivables not collected within 60 days of year end are not available to pay for current year expenditures	4,825,747
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(7,439,758)
Compensated absences are not reported in the funds	(565,224)
Accrued interest payable is not reported in the funds	<u>(108,076)</u>
Government-wide net assets	<u>\$ 95,064,172</u>

Monroe County Road Commission

Notes to Financial Statements December 31, 2005

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net change in fund balances - Total governmental funds	\$ 807,892
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	5,500,730
In the statement of activities, only the gain on the sale of an asset is reported, whereas in the governmental funds, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the proceeds from the asset sold	49,763
Special assessment revenues are recorded in the statement of activities when the assessment is made; they are not reported in the funds until collected or collectible within 60 days of year end	(25,168)
Proceeds from the issuance of bonds and notes are reported as other financing sources in the governmental funds, but not in the statement of activities	(3,003,500)
Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	902,702
Changes in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	(23,489)
Interest expense is recorded in the statement of activities when a liability is incurred; they are reported in the funds only when payment is due	(46,559)
In the governmental funds, state and local revenues not collected within 60 days of year end are not available to pay for current year expenditures, whereas in the statement of activities, revenue is recognized when earned	<u>2,114,259</u>
Change in net assets of governmental activities	<u>\$ 6,276,630</u>

Monroe County Road Commission

Notes to Financial Statements December 31, 2005

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Road Commission has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to custodial credit risk as follows:

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had \$3,010,065 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The book balance of these deposits has been reported on the governmental funds balance sheet/statement of net assets as cash of \$896,662 and restricted assets of \$1,504,226.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 4 - Restricted Assets

Restricted assets in the Road Fund at December 31, 2005 consist of cash and investments in the amount of \$1,504,226. These assets, representing unspent bond proceeds, are restricted for construction.

Monroe County Road Commission

Notes to Financial Statements December 31, 2005

Note 5 - Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 731,812	\$ 15,000	\$ -	\$ 746,812
Land improvements - Infrastructure	11,329,509	987,025	-	12,316,534
Subtotal	12,061,321	1,002,025	-	13,063,346
Capital assets being depreciated:				
Land improvements	141,318	7,660	-	148,978
Buildings	4,173,135	1,759	-	4,174,894
Equipment and storage	11,000,244	642,984	374,989	11,268,239
Infrastructure	130,789,864	12,182,132	-	142,971,996
Subtotal	146,104,561	12,834,535	374,989	158,564,107
Less accumulated depreciation for:				
Land improvements	(47,666)	(10,796)	-	(58,462)
Buildings	(1,513,874)	(192,946)	-	(1,706,820)
Equipment and storage	(8,164,298)	(784,410)	(337,686)	(8,611,022)
Infrastructure	(58,750,808)	(7,260,612)	-	(66,011,420)
Subtotal	(68,476,646)	(8,248,764)	(337,686)	(76,387,724)
Net capital assets being depreciated	77,627,915	4,585,771	37,303	82,176,383
Net capital assets	\$ 89,689,236	\$ 5,587,796	\$ 37,303	\$ 95,239,729

Note 6 - Risk Management and Other Long-term Liabilities

Insurance Programs

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for health care claims and workers' compensation. The Road Commission also participates in the Michigan County Road Commission self-insurance pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past four fiscal years.

Monroe County Road Commission

Notes to Financial Statements December 31, 2005

Note 6 - Risk Management and Other Long-term Liabilities (Continued)

The Michigan County Road Commission self-insurance pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Compensated Absences

The compensated absences liability represents the estimated liability to be paid to employees under the Road Commission's leave policies. Under the Road Commission's policy, all employees are eligible for paid leave in varying amounts based on time of service with the Road Commission. The estimated compensated absence liability as of December 31, 2005 is \$565,224.

Note 7 - Long-term Debt

Outstanding Debt

The following is a summary of debt outstanding of the Road Commission as of December 31, 2005:

	Interest Rate	Maturing Through	Principal Outstanding
1999 Michigan Transportation Fund Bonds, Series 1999	4.50%-5.00%	2012	\$ 1,470,000
2002 Michigan Transportation Fund Notes Series 2002	3.25%-4.00%	2012	2,450,000
2005 Michigan Transportation Fund Bonds, Series 2005	3.00%-3.85%	2017	2,200,000
2005 Michigan Transportation Fund Notes, Series 2005	3.80%	2010	750,000
Installment lease purchase agreements	4.00% - 8.00%	2008	446,533
Installment debt - State audits	0%	2006	<u>123,225</u>
Total bonded and other contractual indebtedness			<u>\$ 7,439,758</u>

The 1999 and 2005 Michigan Transportation Fund Bonds were issued by the County of Monroe, Michigan on behalf of the Road Commission. The Road Commission is a co-signer on these bond agreements and is solely responsible for the repayment of these bonds.

The 2002 and 2005 Michigan Transportation Fund Notes have been issued in accordance with the statutory requirements of Michigan Public Act 143 of 1943, as amended. The financing from these notes will be used to fund improvements on county highways.

Monroe County Road Commission

Notes to Financial Statements December 31, 2005

Note 7 - Long-term Debt (Continued)

The Installment lease purchase agreements consist of multi-equipment obligations, including two Cat loaders, two Cat graders, and an asphalt trailer.

The installment debt consists of amounts owed for previous audits of the state trunkline maintenance contracts.

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended December 31, 2005:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
1999 Michigan Transportation Fund Bonds, Series 1999	\$ 1,645,000	\$ -	\$ 175,000	\$ 1,470,000	\$ 180,000
2002 Michigan Transportation Fund Notes, Series 2002	2,800,000	-	350,000	2,450,000	350,000
2005 Michigan Transportation Fund Notes, Series 2005	-	750,000	-	750,000	150,000
2005 Michigan Transportation Fund Bonds, Series 2005	-	2,200,000	-	2,200,000	100,000
Installment lease purchase agreements	470,369	53,500	77,336	446,533	110,906
Installment agreements - State audit	423,591	-	300,366	123,225	123,225
Total bonded and other contractual indebtedness	<u>\$ 5,338,960</u>	<u>\$ 3,003,500</u>	<u>\$ 902,702</u>	<u>\$ 7,439,758</u>	<u>\$ 1,014,131</u>

Monroe County Road Commission

Notes to Financial Statements December 31, 2005

Note 7 - Long-term Debt (Continued)

Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of December 31, 2005, except liabilities for compensated absences, are as follows:

Fiscal Years Ending December 31	Principal	Interest	Total
2006	\$ 1,014,131	\$ 297,942	\$ 1,312,073
2007	912,182	247,323	1,159,505
2008	1,113,445	213,548	1,326,993
2009	860,000	170,483	1,030,483
2010	920,000	135,915	1,055,915
2011-2015	2,170,000	259,675	2,429,675
2016-2017	450,000	26,750	476,750
Total	<u>\$ 7,439,758</u>	<u>\$ 1,351,636</u>	<u>\$ 8,791,394</u>

Interest

Interest expense paid by the Road Commission for the year ended December 31, 2005 approximated \$207,000.

Note 8 - Stewardship, Compliance, and Accountability

The Road Commission is legally subject to the budgetary control requirements of State of Michigan P.A. 621 of 1978 (the Uniform Budgeting Act). The following is a summary of the requirements of this Act according to the State Treasurer's *Bulletin for Audits of Local Units of Government in Michigan*, dated April 1982 as amended by P.A. 493 of 2000:

- Budgets must be adopted for the Special Revenue Funds. The Road Fund is a Special Revenue Fund.
- Budgeted expenditures cannot exceed budgeted revenues and fund balance.
- The budgets must be amended when necessary.
- Public hearings must be held before budget adoptions.
- Expenditures cannot exceed budget appropriations.

Monroe County Road Commission

Notes to Financial Statements December 31, 2005

Note 8 - Stewardship, Compliance, and Accountability (Continued)

- f. Expenditures must be authorized by a budget before being incurred.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the Road Fund budget as adopted by the board of road commissioners is included in the required supplemental information.

The Road Commission follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In November, the managing director of the Road Commission submits to the board of county road commissioners a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain citizen comments.
3. During December, the budget is legally enacted by the passage of a resolution.
4. The managing director is authorized to transfer budgeted amounts between line items within an activity category, exclusive of certain exceptions, which require the approval of the board of county road commissioners. These accepted items and any revisions that alter the total expenditures of any budgeted activity must be approved by the board.

Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that County appropriations were budgeted as other financing sources rather than revenue.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Road Commission incurred expenditures that were in excess of amounts budgeted, as follows:

	Amended Budget	Actual
Primary construction/heavy maintenance	\$ 4,312,626	\$ 4,807,477
Administrative	1,710,000	1,758,933

Monroe County Road Commission

Notes to Financial Statements December 31, 2005

Note 8 - Stewardship, Compliance, and Accountability (Continued)

The unfavorable variance for both primary construction/heavy maintenance and administrative costs was caused by unforeseen audit adjustments to report unrecorded liabilities at December 31, 2005.

Note 9 - Postemployment Benefits

The Road Commission provides postemployment health and life insurance benefits to all full-time employees, in accordance with labor contracts and personnel policy. Currently, 71 retirees and/or surviving spouses are eligible for health and life insurance benefits, with no contribution required by the participant. Expenditures for postemployment health care and life insurance benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$723,000, net of approximately \$44,000 reimbursed by the retirees.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care expenses over the working life of the employee, rather than at the time the health care expenses are paid. The pronouncement is effective for the year ending December 31, 2008.

Note 10 - Defined Benefit Pension Plan

Plan Description - The Road Commission participates in the Monroe County Employees' Retirement System ("MCERS"), a single-employer defined benefit pension plan that covers nearly all employees of the Road Commission. MCERS provides retirement, disability, and death benefits to plan members and their beneficiaries. MCERS issues a publicly available financial report that includes financial statements and required supplemental information for the system. That report may be obtained by writing to Monroe County at 106 East First Street, Monroe, Michigan 48161.

Funding Policy - The obligation to contribute to and maintain MCERS for these employees was established by negotiation with the Road Commission's competitive bargaining units and personnel policy.

Monroe County Road Commission

Notes to Financial Statements December 31, 2005

Note 10 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost - For the year ended December 31, 2005, the Road Commission's annual pension cost of \$567,936 for the plan was equal to the Road Commission's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age normal cost method. Significant actuarial assumptions used include (a) a 7 percent investment rate of return, (b) projected salary increases of 5.0 percent per year, and (c) no postretirement benefit increases. Both (a) and (b) include an inflation component of 4.0 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization period is 14 years.

Additional pension plan information is as follows:

	Fiscal Years Ended December 31		
	2003	2004	2005
Annual pension cost (APC)	\$ -	\$ 367,314	\$ 567,936
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

	Actuarial Valuation as of December 31		
	2002	2003	2004
Actuarial value of assets	\$ 18,420,874	\$ 19,946,056	\$ 19,756,612
Actuarial Accrued Liability (AAL) (entry age)	\$ 18,857,275	\$ 20,897,146	\$ 21,944,097
Underfunded AAL	\$ 436,401	\$ 951,090	\$ 2,187,485
Funded ratio	98%	95%	90%
Covered payroll	\$ 4,342,936	\$ 4,616,823	\$ 5,004,436
UAAL as a percentage of covered payroll	10%	21%	44%

Note 11 - Construction in Process

Estimated future contract cost obligations related to completion of Road Fund construction projects in process at December 31, 2005, net of estimated revenue from federal aid and contributions from participating communities, total approximately \$914,000. The total remaining cost of these uncompleted projects will exceed the above estimated future contract costs due to inspection costs and other noncontracted services. It is anticipated that a significant portion of such additional costs will be shared with other governmental units and that the Road Commission's share of these costs will not be material in amount.

Required Supplemental Information

Monroe County Road Commission

Required Supplemental Information Budgetary Comparison Schedule - Road Fund Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
State aid - Michigan Transportation Fund	\$ 10,490,000	\$ 10,325,000	\$ 10,311,687	\$ (13,313)
State trunkline maintenance	1,803,409	2,384,400	2,461,336	76,936
Federal and state sources	1,304,890	1,231,493	968,772	(262,721)
Revenue from local governments	4,137,000	5,244,253	5,248,455	4,202
Interest, fees, and other revenue	2,735,175	3,430,570	3,300,428	(130,142)
Total revenue	20,470,474	22,615,716	22,290,678	(325,038)
Expenditures				
Current:				
Primary construction/heavy maintenance	2,838,650	4,312,626	4,807,477	(494,851)
Local construction/heavy maintenance	5,544,850	8,472,805	8,361,680	111,125
Primary routine maintenance	2,660,000	3,300,000	3,291,709	8,291
Local routine maintenance	3,890,000	4,310,550	4,230,670	79,880
State maintenance	2,059,825	2,752,156	2,751,248	908
Equipment and capital outlay - Net of depreciation credits	(720,000)	(609,000)	(915,469)	306,469
Administrative	1,715,000	1,710,000	1,758,933	(48,933)
Other services	368,525	433,512	427,469	6,043
Debt service:				
Principal retirement	603,737	603,737	603,737	-
Interest and other charges	189,321	195,963	195,417	546
Total expenditures	19,149,908	25,482,349	25,512,871	(30,522)
Excess of Revenue Over (Under) Expenditures	1,320,566	(2,866,633)	(3,222,193)	(355,560)
Other Financing Sources (Uses)				
Proceeds from long-term debt	-	3,009,638	3,003,500	(6,138)
Discount on debt	-	(11,205)	(11,205)	-
County appropriation	650,000	1,049,470	1,037,790	(11,680)
Total other financing sources	650,000	4,047,903	4,030,085	(17,818)
Excess of Revenue and Other Financing Sources Over Expenditures	1,970,566	1,181,270	807,892	(373,378)
Fund Balance - January 1, 2005	2,203,198	2,203,198	2,203,198	-
Fund Balance - December 31, 2005	<u>\$ 4,173,764</u>	<u>\$ 3,384,468</u>	<u>\$ 3,011,090</u>	<u>\$ (373,378)</u>

Other Supplemental Information

Monroe County Road Commission

Other Supplemental Information Analysis of Changes in Road Fund Balance Year Ended December 31, 2005

	Primary Road	Local Road	County Road Commission	Total
Revenue				
State aid - Michigan Transportation Fund	\$ 7,100,512	\$ 3,211,175	\$ -	\$ 10,311,687
State trunkline maintenance	-	-	2,461,336	2,461,336
Federal and state sources	961,577	-	7,195	968,772
Revenue from local governments	115,059	5,100,611	32,785	5,248,455
Interest, fees, and other revenue	523,468	2,026,009	750,951	3,300,428
Total revenue	8,700,616	10,337,795	3,252,267	22,290,678
Expenditures				
Current:				
Primary construction/heavy maintenance	4,807,477	-	-	4,807,477
Local construction/heavy maintenance	-	8,361,680	-	8,361,680
Primary routine maintenance	3,291,709	-	-	3,291,709
Local routine maintenance	-	4,230,670	-	4,230,670
State maintenance	-	-	2,751,248	2,751,248
Equipment and capital outlay - Net of depreciation credits	(459,615)	(250,529)	(205,325)	(915,469)
Administrative	1,039,934	718,999	-	1,758,933
Other services	44,981	62,502	319,986	427,469
Debt service:				
Principal retirement	428,737	175,000	-	603,737
Interest and other charges	121,057	74,360	-	195,417
Total expenditures	9,274,280	13,372,682	2,865,909	25,512,871
Excess of Revenue Over (Under) Expenditures	(573,664)	(3,034,887)	386,358	(3,222,193)
Other Financing Sources (Uses)				
Proceeds from long-term debt	803,500	2,200,000	-	3,003,500
Discount on debt	-	(11,205)	-	(11,205)
County appropriation	-	1,037,790	-	1,037,790
Total other financing sources	803,500	3,226,585	-	4,030,085
Excess of Revenue and Other Financing Sources Over Expenditures	229,836	191,698	386,358	807,892
Fund Balance - January 1, 2005	114,394	95,054	1,993,750	2,203,198
Fund Balance - December 31, 2005	<u>\$ 344,230</u>	<u>\$ 286,752</u>	<u>\$ 2,380,108</u>	<u>\$ 3,011,090</u>



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March 24, 2006

Board of County Road Commissioners
Monroe County Road Commission
840 S. Telegraph Road
Monroe, MI 48161

Dear Board Members:

We have recently completed our audit of the financial statements of the Monroe County Road Commission for the year ended December 31, 2005. In addition to our audit report, we offer the following comments and recommendations for your consideration:

Audit Journal Entries

During our audit, we noted some areas requiring further adjustment. These items include, but are not limited to:

- Recording of a liability for contract retainages
- Recording of revenue and expense for in-kind work performed on Sterns Road
- Recognition of deferred revenue (vs. revenue) for amounts billed but not collected within 60 days of year end
- Appropriate recording of state maintenance receivable and revenue
- Appropriate recording of long-term debt

All of the above items were discussed with management and corrected via audit journal entries. Since some of these adjustments impacted the expense of the Road Commission, it did create some budget overruns. We commend the Road Commission for the prompt attention given to these corrections and the initiatives taken to ensure these adjustments are handled appropriately in the future.

Manual Journal Entries

During our testing of the journal entry process, we noted seven employees have access to the general ledger module. Three of these employees are nonaccounting staff who do not have authorization to post journal entries. For these employees, we suggest restricting access to the general ledger module. While the director of finance reviews all posted journal entries, such entries are not identified by preparer and a report is not generated on a monthly basis to prompt a formal supervisory review. To improve controls in this area, we suggest adding a field to the general ledger module that will identify the source of the created journal entry. In addition, a journal entry report should be run each month and reviewed by a supervisor, as evidenced by the signature of a supervisor.



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Payroll

During our review of the payroll process, we noted that the payroll clerk has the ability to add new employees and change pay rates in the system. While the system prints out a report of changes made, a supervisory review of this report is not being performed. In order to maintain adequate internal controls, a more formal review, as evidenced by the signature and approval of a supervisor, is recommended. While the pay register is reviewed by the director of finance and all payroll checks are manually signed by two authorized signers, a supervisory review of the payroll change report may detect errors in the preparation process that may otherwise go undetected.

Transportation Funding

As you are no doubt aware, the State of Michigan in the summer of 2005 indicated that it anticipated transportation related tax receipts to be approximately 3 percent to 4 percent lower than that expected for the State's 2004-2005 fiscal year ended September 30, 2005. The lower tax receipts and the implication to future periods will likely result in reduced Act 51 payments to the Road Commission. Ongoing close monitoring of this primary funding source will be an important aid in ensuring appropriate planning and timely reactions to changes in circumstances.

Current Reporting Change - Deposit and Investment Risk Disclosure

The Governmental Accounting Standards Board has recently released Statement Number 40, *Deposit and Investment Risk Disclosure*, an amendment of GASB Statement Number 3. The new Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. These disclosures have been addressed in Note 3 of the financial statements for the Road Commission's (nonpension) deposits and investments held at December 31, 2005.

Upcoming Reporting Change - Other Postemployment Benefits

As you are probably aware, the Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize (but not necessarily fund) the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

We would like to thank the Road Commission personnel for the courtesy and assistance extended to us during the audit. We would be happy to address any questions you may have regarding the annual financial report, the above comments and recommendations, or any other matters, at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, reading "Mary J. Schafer". The signature is written in a cursive style with a large, sweeping "M" and "S".

Mary J. Schafer

A handwritten signature in black ink, reading "Jenny L. Cederstrom". The signature is written in a cursive style with a large, sweeping "J" and "C".

Jenny L. Cederstrom